

Interim Consolidated Financial Statements
ОАО ОМЗ (Uralmash-Izhora Group)

The six months ended June 30, 2003

OAO OMZ (Uralmash-Izhora Group)
Interim Consolidated Financial Statements
The six months ended June 30, 2003

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OAO OMZ (Uralmash-Izhora Group)

Interim Consolidated Balance Sheet (unaudited)

(In thousands of US dollars)

	June 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents (Note 5)	25,758	29,750
Short-term investments (Note 6)	5,563	11,934
Trade accounts receivable, net (Note 7)	33,957	54,584
Due from related parties (Note 8)	19,451	2,918
Inventories, net (Note 9)	201,426	161,736
Costs and recognized income not yet billed (Note 10)	27,372	23,195
Prepaid expenses and advances to suppliers	79,780	23,610
Other current assets (Note 11)	84,008	38,314
Total current assets	477,315	346,041
Plant and equipment, net (Note 12)	207,872	201,359
Long-term investments, net (Note 13)	19,271	12,828
Due from related parties, long-term (Note 8)	15,334	2,374
Trade accounts receivable, long-term (Note 7)	3,901	13,508
Other long-term receivables (Note 20)	36,804	-
Patents and other non-current assets (Note 3)	14,361	13,837
Goodwill (Note 4)	9,104	2,585
Total assets	783,962	592,532
Liabilities and Shareholders' Deficiency		
Current liabilities:		
Trade accounts payable and accruals	33,436	32,257
Advances received and deferred revenues (Note 14)	105,522	91,139
Billings in excess of costs and recognized income (Note 10)	21,181	23,110
Accumulated billings over related cost (Note 10)	1,426	1,509
Taxes payable (Note 16)	40,835	35,902
Payroll and related obligations	12,645	10,206
Due to related parties (Note 8)	78,469	5,059
Deferred taxes (Note 15)	7,877	3,514
Short-term borrowings (Note 17)	54,054	53,329
Current portion of long-term debt (Notes 19)	4,113	3,248
Other payables	22,060	24,429
Total current liabilities	381,618	283,702
Non-convertible bonds (Note 18)	55,340	28,646
Billings in excess of cost and recognized income, long-term (Note 10)	16,574	13,508
Long-term debt (Note 19)	33,042	32,471
Long-term accounts payable	3,589	1,013
Other long term debt (Note 20)	36,804	-
Taxes payable, long-term (Note 16)	34,587	33,236
Deferred taxes, non-current (Note 15)	11,563	1,471
Total liabilities	573,117	394,047
Minority interest (Note 21)	228,074	229,877

OAOMZ (Uralmash-Izhora Group)
Interim Consolidated Balance Sheet (unaudited)

(In thousands of US dollars)

	June 30, 2003	December 31, 2002
Shareholders' deficiency <i>(Note 22)</i> :		
Common stock (0.1 ruble par value per share), 66,250,000 shares authorized and 35,350,000 shares issued as of June 30, 2003 and December 31, 2002; 31,776,282 and 31,375,282 shares outstanding as of June 30, 2003 and December 31, 2002, respectively	609	582
Cumulative preferred stock (0.1 ruble par value and liquidation value per share), 2,750,000 shares authorized, issued and outstanding	50	48
Additional paid-in capital	81,643	75,644
Treasury stock, 3,573,718 and 3,974,718 shares of common stock as of June 30, 2003 and December 31, 2002, respectively	(12)	(13)
Accumulated deficit (Note 3)	(93,633)	(107,653)
Accumulated other comprehensive loss (Note 3)	(5,886)	-
Total shareholders' deficiency	(17,229)	(31,392)
 Total liabilities and shareholders' deficiency	783,962	592,532

The accompanying notes are an integral part of these interim consolidated financial statements.

Chief Operating Officer

Lipsky S. V.

Financial Reporting,
Tax & Audit Director
Khaletskaya L. N.

OAO OMZ (Uralmash-Izhora Group)

Interim Consolidated Statement of Income (unaudited)

(In thousands of US dollars, except for per share amounts)

	Six months ended June 30, 2003	Six months ended June 30, 2002
Sales	215,702	202,871
Cost of sales	(154,480)	(148,321)
Gross margin	61,222	54,550
Selling, general and administrative expenses	(51,248)	(37,719)
Release from (provision for) doubtful accounts receivable	(625)	2,083
Release from obsolete inventory	1,003	6,231
Impairment of property, plant and equipment	-	(936)
Release from obsolete equipment under construction	97	594
Income from operations	10,449	24,803
Other income (expense)		
Interest income	1,162	969
Interest expense	(8,463)	(6,023)
Investment income	417	-
Investment loss	(208)	(845)
Gain on sale of non-core business units <i>(Note 23)</i>	12,881	128
Gain on release from tax penalties	556	-
Provision for tax penalties	(645)	(1,251)
Foreign exchange gain <i>(Note 3)</i>	2,815	2,321
Other non-operating (losses) gains	(4,118)	(4,004)
Income before income taxes and minority interest	14,846	16,098
Income tax expense <i>(Note 15)</i>	(3,216)	(8,922)
Income before minority interest	11,630	7,176
Minority interest in net loss (income) of subsidiaries	2,518	(2,586)
Net income	14,148	4,590
Other comprehensive income (loss), net of income tax		
Unrealized holding income (loss) from available for sales securities	-	849
Cumulative translation adjustment <i>(Note 3)</i>	(4,648)	-
Deferred tax recognized as other comprehensive loss <i>(Note 3)</i>	(1,238)	-
Comprehensive income	8,262	5,439
Basic and diluted net income per share	0.45	0.15
Basic and diluted comprehensive income per share	0.26	0.17
Average shares of common stock outstanding	31,776,282	31,375,282

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO OMZ (Uralmash-Izhora Group)

Interim Consolidated Statement of Changes in Shareholders' Deficiency (unaudited)

(In thousands of US dollars, except for share amounts)

	Common stock		Cumulative preferred stock		Additional paid-in-capital			Treasury common stock		Accumulated deficit	Accumulated other comprehensive income (loss) <i>(Note 3)</i>	Total
	Shares	Amount	Shares	Amount	Common and preferred stock	Treasury Stock	Total	Shares	Amount			
Balances as of December 31, 2001	35,350,000	582	2,750,000	48	73,844	1,800	75,644	(3,974,718)	(13)	(146,609)	(1,213)	(71,561)
Change in unrealized loss on sale of available for sale securities	-	-	-	-	-	-	-	-	-	-	849	849
Net income	-	-	-	-	-	-	-	-	-	4,590	-	4,590
Balances as of June 30, 2002	35,350,000	582	2,750,000	48	73,844	1,800	75,644	(3,974,718)	(13)	(142,019)	(364)	(66,122)
Balances as of December 31, 2002	35,350,000	582	2,750,000	48	73,844	1,800	75,644	(3,974,718)	(13)	(107,653)	-	(31,392)
Treasury stock issued to management	-	-	-	-	-	2,434	2,434	401,000	2	-	-	2,436
Deferred tax recognized as other comprehensive loss <i>(Note 3)</i>	-	-	-	-	-	-	-	-	-	-	(1,238)	(1,238)
Cumulative translation adjustment <i>(Note 3)</i>	-	27	-	2	3,480	85	3,565	-	(1)	-	(4,648)	(1,055)
Dividends accrued	-	-	-	-	-	-	-	-	-	(128)	-	(128)
Net income	-	-	-	-	-	-	-	-	-	14,148	-	14,148
Balances as of June 30, 2003	35,350,000	609	2,750,000	50	77,324	4,319	81,643	(3,573,718)	(12)	(93,633)	(5,886)	(17,229)

The accompanying notes are an integral part of these interim consolidated financial statements.

OAO OMZ (Uralmash-Izhora Group)
Interim Consolidated Statement of Cash Flows (unaudited)

(In thousands of US dollars)

	Six months ended June 30	
	2003	2002
Net income	14,148	4,590
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of plant and equipment	13,001	10,622
Amortization of patents	1,042	-
Foreign exchange gain	(3,281)	(2,321)
Deferred tax expense	1,559	5,379
Provision (release from) for doubtful accounts receivable	625	(2,083)
Release from obsolete inventories	(1,003)	(6,231)
Release from obsolete equipment under construction	(97)	(594)
Impairment loss	-	936
Investment income	(417)	-
Investment loss	208	1,694
Minority interest in net income (loss) of subsidiaries	(2,518)	2,586
Gain on sale of non-core business units	(12,881)	(128)
Gain on release from tax penalties	(556)	-
Provision for tax penalties	180	1,251
Loss on disposal of PP&E	229	-
Net change before change in working capital	10,239	15,701
Changes in assets and liabilities, net of effects of purchase of new subsidiaries:		
Trade accounts receivable	22,037	16,847
Inventories	(29,527)	29,823
Costs and recognized income not yet billed	(2,995)	(13,055)
Taxes receivable	(25,251)	3,593
Prepaid expenses and advances to suppliers	(53,000)	(474)
Other current assets	(4,101)	(8,657)
Trade accounts receivable long term	(3,915)	(13,367)
Trade accounts payable and accruals	988	(9,155)
Advances received	52,971	(25,512)
Accumulated billings over related costs	(150)	(6,496)
Payroll and related obligations	4,112	4,365
Taxes payable	2,542	(15,461)
Amounts due to and from related parties	8,899	13,365
Billings in excess of costs and recognized income	(571)	2,873
Other payables	4,886	3,526
Net cash used in operating activities	(12,836)	(2,084)

OAO OMZ (Uralmash-Izhora Group)
Interim Consolidated Statement of Cash Flow (unaudited)

(In thousands of US dollars)

	Six months ended June 30	
	2003	2002
Cash Flows from Investing Activities		
Net cash paid in acquisition of		
Zarubezhenergoproekt <i>(Note 4)</i>	(1,082)	-
Biolink technologies International inc. <i>(Note 4)</i>	(3,335)	-
SF Almaz	(6,770)	(4,461)
UPET	-	(558)
Friede Goldman	-	(15,140)
Other subsidiaries	-	(1,682)
Net proceeds from disposal of short-term investments	2,633	4,689
Purchases of plant and equipment	(8,422)	(7,457)
Proceeds from disposal of plant and equipment	763	3,104
Proceeds from disposals of non-core business units	-	128
Purchase of Atomenergoexport <i>(Note 13)</i>	(4,940)	-
Purchase of Volgograd Shipbuilding Plant <i>(Note 13)</i>	(2,170)	-
Purchase of other long-term investments	(339)	(974)
Proceeds from sale of long-term investments	1,712	859
Purchases of other non current assets	(96)	(287)
Net cash used in investing activities	(22,046)	(21,779)
Cash Flows from Financing Activities		
Net proceeds from short-term loans and borrowings	(2,335)	19,009
Net proceeds from long-term loans and borrowings	1,556	527
Repayment of long term debt	-	(1,530)
Proceeds from issuance of non-convertible bonds	28,791	5,850
Redemption of non-convertible bonds	(4,171)	-
Proceeds from related party loans	5,805	1,857
Net cash provided by financing activities	29,646	25,713
	-	-
Effect of exchange rate changes on cash and cash equivalents	1,245	(521)
Net change in cash and cash equivalents	(5,237)	1,330
Cash and cash equivalents at beginning of year	29,750	15,267
Cash and cash equivalents at end of year	<u>25,758</u>	<u>16,596</u>
Supplementary cash flow information:		
Interest paid	8,333	6,428
Income taxes paid	2,237	1,966
Supplementary disclosure of non-cash activities:		
Conversion of Biolink promissory notes into shares	1,382	-

The accompanying notes are an integral part of these consolidated financial statements.

OAO OMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

1. Description of Business

Open Joint Stock Company ("OAO") Obedinennye Mashinostroitelnye Zavody (Uralmash-Izhora Group) (the "Parent Company" or "OMZ"), formerly OAO United Heavy Machinery (Uralmash-Izhora Group) and OAO Uralmash-Zavody, is incorporated in Ekaterinburg, in the Sverdlovsk Region of the Russian Federation, in 1996 and is a holding company with controlling interests in a number of production, engineering, trading and investment entities (collectively referred to as the "Company" or the "Group"). The Company organizes its business along six major business lines: drilling equipment (oil and gas rigs), equipment for nuclear power plants, mining equipment, shipbuilding, specialty steels and machinery manufacturing services. Below is the description of business of the Company's most significant subsidiaries:

OAO Ural Heavy Machine-Building Plant ("Uralmash"), a manufacturer of heavy machinery, including, on-shore and off-shore drilling equipment, quarry shovels, hot and cold rolling equipment, continuous casting units, mills and mill equipment, was founded in 1933 in Ekaterinburg. Uralmash was instrumental in the industrialization of the Soviet Union, particularly in the mining and metallurgical industries. During World War II, Uralmash changed its focus to the manufacturing of military tanks and fighter planes, converting back to the production of heavy machinery following the war. In December 1992, Uralmash was registered as an open joint stock company in accordance with the laws of the Russian Federation, allowing the public trade of Uralmash shares. In 1997, the Parent Company acquired a controlling stake in Uralmash through stock swaps with the previous shareholders.

OAO Izhorskiye Zavody ("Izhorskiye Zavody"), a manufacturer of heavy engineering machine-building and metallurgical products, equipment for nuclear power plants and mining equipment, was founded in 1722 in St. Petersburg and is one of the oldest plants in Russia. Izhorskiye Zavody was formerly a state owned production association. In 1992, Izhorskiye Zavody was re-organized into an open joint stock company. In 1998, the Parent Company acquired 46.53% of the Izhorskiye Zavody shares for cash and issuance of shares. In September 1999, the Parent Company acquired an additional 20.65% of interest in Izhorskiye Zavody for cash, and has been consolidating Izhorskiye Zavody since that date.

OAO Welded and Machine-Building Structure Plant ("ZSMK"), a manufacturer of electrical line pilings, drilling equipment, and custom metal construction, was founded in 1980 in the Sverdlovsk region and was formerly a state owned production association. Subsequently ZSMK was re-organized into an open joint stock company. In 1997, the Parent Company acquired a controlling stake in ZSMK through stock swaps with the previous shareholders.

OAO Krasnoe Sormovo Plant ("Krasnoe Sormovo"), a manufacturer of sea-river tankers and dry-cargo vessels for shipping companies and circulation systems for oilrigs, was founded in 1849 in Nizhniy Novgorod, and was formerly a state owned production association specializing in the manufacturing of military vessels and submarines. In 1994, Krasnoe Sormovo was re-organized into an open joint stock company and switched its facilities to the manufacturing of non-military fleet. The Parent Company obtained a controlling interest in Krasnoe Sormovo in 2000.

OAO NPO Burovaya Tekhnika ("Burovaya Tekhnika"), a manufacturer of drilling equipment, Burovaya Tekhnika, was founded in 1953 in Moscow and has subsidiaries in Volgograd, Lubertsy and Perm. Besides manufacturing drilling equipment, Burovaya Tekhnika currently carries out research and development for the oil drilling industry and provides drilling services to oil companies. In the course of 1997-2001, the Parent Company acquired a controlling interest in Burovaya Tekhnika.

OAo OMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

1. Description of Business (continued)

During 2001-2002, the Parent Company acquired a controlling interest in S.C. UPET, S.A. ("UPET"), a Targovistya-based Romanian facility specializing in the manufacturing of drilling equipment, specifically mobile drilling units, with plans to use UPET as an expansion platform to strategically important Middle East and North Africa markets traditionally served by UPET.

In 2002, the Company acquired a 72.77% interest in OAO SF Almaz ("Almaz"), a shipbuilding facility based in St. Petersburg that develops and manufactures a wide range of civil, military and special-purpose sea and river vessels, including air-cushioned landing craft and multi-purpose hovercrafts and patrol boats.

On 8 January 2003, the Company acquired approximately 20% of the issued shares in ZAO Atomenergoexport (AEE) for a total consideration of approximately US\$4.9 million. As 50% of AEE's shares are held as treasury shares, this effectively gave the Company a 40% interest. AEE's primary business is the export of nuclear power plant equipment and services and AEE owns 49% of the issued shares in ZAO Atomstroyexport (ASE). As approximately 9% of ASE's shares are held as treasury shares, AEE has an effective 54% interest in ASE (Note 13).

The Company continues to make ongoing efforts to expand its market presence and modernize its facilities through a series of acquisitions of Russian and foreign entities in similar industries (Note 4).

The Company is one of the largest manufacturers of heavy engineering products in Russia. The Company's main customers include certain Russia's largest oil and gas companies, metallurgical plants, transportation and mining companies, in addition to the developers of certain nuclear power stations. Approximately 46% and 34% of its revenues for the six months ended June 30, 2003 and June 30, 2002, respectively, came from sales outside of Russia, mostly sales of nuclear power plant equipment to Asia-based nuclear power stations and sales of mining equipment to customers in Asia.

2. Financial Position

As of June 30, 2003, the Company's interim consolidated balance sheet reflected an accumulated deficit of US\$93,633. Accumulated deficit is the result of net losses incurred prior to 2000, including substantial impairment charges to property, plant and equipment in 1999. The nature of the Company's growing business, combined with the long-term nature of its production cycle, requires the Company to continue to invest cash in inventory prior to receiving cash from its customers. In the six months ended June 30, 2003, net investments in working capital totaled US\$23,075, and cash flows from operating activities were negative US\$12,836. In addition, the Company had negative cash flows from operating activities of US\$2,084 including net investments in working capital of US\$17,785, during the six months ended June 30, 2002. Management continues to implement actions to better manage this cash flow cycle.

These factors could raise doubt as to the Company's ability to continue its operations as a going concern. The accompanying interim consolidated balance sheet do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Management of the Company believes that the Company has sufficient financial resources to maintain current operations. Management also believes that the current market situation in Russia and projected future business development of the Company will allow management to further improve the financial position and cash flow from operations of the Company. Specifically, the Company's plans and actions include the following:

OA0 OMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

2. Financial Position (continued)

- As of October 01, 2003, the Company has significant existing long-term contracts for the future production of nuclear power station equipment to be exported to China and India.
- As of October 01, 2003, the Company has significant existing contracts totaling US\$1,142.6 million including contracts for the construction of ships and vessels totaling US\$619.9 million. Included in this amount is the contract for the sale of a submarine to the Chinese Navy executed in 2003 for which the completion is expected in 2005. Furthermore, the Company has continued to experience growth in demand for its products, resulting in a significant future production portfolio, many of which extend for several years.
- Over the past six months the Company has successfully worked with banks and financing institutions to secure necessary financing for the long-term contracts in process and for other investing needs. Based on the terms of existing contracts as well as its recent experience, management of the Company expects to be able to continue to secure necessary short-term and long-term financing for its operational and investing cash flow requirements.
- During 2003, Management has continued to restructure its operations to increase its efficiency and reduce costs. Management has also, over the past several years, implemented a program to divest of non-core businesses and increase its business in core, higher margin business lines. Management expects these actions to continue to improve its profitability and results of operations.

Management believes that the indicators that could raise doubt about the Company's ability to continue as a going concern are substantially mitigated by the above factors, as well as its overall evaluation of its business environment. As a result, the consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue operations in the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

3. Significant Accounting Policies

These unaudited interim consolidated financial statements should be read in conjunction with the OAO Obedinennye Mashinostroitelnye Zavody"), formerly OAO United Heavy Machinery (Uralmash-Izhora Group) audited consolidated financial statements for the year ended December 31, 2002. These consolidated financial statements, in the opinion of management, include all adjustments necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The results for the six months ended June 30, 2003 are not necessarily indicative of results to be expected for the full fiscal year 2003 or any other future periods.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

Basis of consolidation and presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

Significant intercompany balances and transactions have been eliminated in the consolidation. The following subsidiaries have been included in the Company's consolidated financial statements as of June 30, 2003:

OAO OMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Name	Principal activities	Country of incorporation	Stake held by the Holding Parent Company or its subsidiaries
Production subsidiaries:			
OAO Ural Heavy Machine-Building Plant (“Uralmash”)	Production of drilling, mining and metallurgical equipment	Russia	69.16%
OAO Izhorskiye Zavody (“Izhorskiye Zavody”)	Production of mining equipment and equipment for nuclear power plants	Russia	75.48%
OAO Welded and Machine-Building Structure Plant (“ZSMK”)	Production of drilling equipment	Russia	73.62%
OAO Krasnoe Sormovo Plant (“Krasnoe Sormovo”)	Shipbuilding	Russia	60.87%
OAO NPO Burovaya Tekhnika (“Burovaya Tekhnika”)	Production of drilling equipment, components and research and development for oil companies	Russia	55.09%
OAO SF Almaz (“Almaz”)	Shipbuilding and repair	Russia	72.77%
OOO OMZ SpecStal (“SpecStal”)	Production of specialty steels	Russia	100%
S.C. UPET S.A. (“UPET”)	Production of mobile rings and components for offshore rigs and multi-purpose metal valves	Romania	66%
OAO Zavod Nizhegorodskiy Teplokhod (“Nizhegorodskiy Teplokhod”)	Production of port facilities, floating cranes, maintenance ships.	Russia	55.68%
Third International Shipbuilding Plant	Shipbuilding and repair	Russia	73.93%
OAO Pavlovsky Machinery Plant (“Pavlovsky Machinery Plant”)	Production of down-hole motors and turbo drills	Russia	64.91%
NPO Neftegazotekhnika	Production of drilling equipment	Russia	76%
ZAO OMZ NEMO	Chemical production	Russia	100%
ZAO Avtomatika	Drilling equipment	Russia	100%
Trading subsidiaries:			
ZAO UMZ-Engineering	Sales of products manufactured by Uralmash	Russia	100%
ZAO UMZ-Trading Company	Sales of products manufactured by Uralmash	Russia	100%
OOO OMZ Sibir	Sales of mining equipment	Russia	75%
OOO Energosnabzhayuschaya kompaniya	Sales of energy resources	Russia	100%
OOO OMZ	Corporate services	Russia	100%
Friede Goldman Marketing, B.V.	Sales of engineering services	The Netherlands	75%
ZAO Uralmash-Service	Sales of products manufactured by Uralmash	Russia	100%
Engineering and research subsidiaries:			
OMZ Morskie & Neftegazovye Proekty (“OMZ Onshore and Offshore”)	Sales of products of shipbuilding and oil and gas equipment segment	Russia	100%

OAO OMZ (Uralsmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Name	Principal activities	Country of incorporation	Stake held by the Holding Parent Company or its subsidiaries
ZAO Komplekt AtomIzhora	Engineering and installation of nuclear power plant equipment	Russia	100%
OOO OMZ Gornoe oborudovanie i tehnologii («GoiT»)	Engineering Sales of mining equipment	Russia	100%
OAO VPI Proektverf	Engineering and research	Russia	54.39%
OAO Zarubezhenergoproekt	Engineering and research	Russia	50.94%
OAO NPO VNIPTMASH	Engineering and research	Russia	75%
BioLink Technologies International, Inc.	Development, manufacturing and marketing of advanced fingerprint biometric products	USA	38.6%
FGL Buyer, LLC	Naval architecture and marine engineering in the offshore drilling	USA	75%
Other and non-core subsidiaries:			
ZAO Uralsmash-Tovary	Production of consumer goods	Russia	81%
OOO Autocomplect	Production of mufflers	Russia	100%
OOO Firm Izoterm	Production of converters	Russia	80%
OOO Instrument	Production of instruments	Russia	100%
OAO Novotrast	Investing activities	Russia	100%
OOO OMZAR	Investing activities	Armenia	100%
United Heavy B.V.	Investing activities	The Netherlands	100%
OMZ Investments Co. (America)	Investing activities	USA	100%
UHM Investments Ltd.	Investing activities	British Virgin Islands	100%
UHM Investments NV	Investing activities	The Netherlands	100%
Shipley Trading, Ltd. BVI	Investing activities	British Virgin Islands	100%
Friede Goldman United, Ltd.	Royalties and license fees from FGL Buyer, LLC	USA	75%
ZAO Almaz Center Invest	Investing activities	Russia	58.33%
OOO Machine-Building Plants Support Company	Procurement of raw materials and spare parts to main production units	Russia	100%
OOO OMZ Center	Management of social assets	Russia	100%
OOO Leasing of Machinery and Equipment	Lease of machinery and equipment	Russia	100%
OAO Leasing-Center-Invest	Lease of machinery and equipment to the Company and related parties	Russia	100%
OOO Uralplast	Production of furniture	Russia	100%
ZAO Private Security Enterprise Archi	Security services	Russia	100%
ZAO Sevzapagenstvo	Security services	Russia	100%
ZAO Private Security Enterprise Stan	Security services	Russia	100%
UHM Tunissia	Representative office	Tunis	95%
OOO OBK	Accounting services	Russia	100%

OAo OMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

3. Significant Accounting Policies (continued)

Basis of consolidation and presentation (continued)

Name	Principal activities	Country of incorporation	Stake held by the Holding Parent Company or its subsidiaries
OOO OMZ-Structure Development	Management of non-core business segments	Russia	90%
OOO Vodokanal 59	Utilities	Russia	100%
OOO Stroikompleks Uralskiy	Construction services	Russia	100%
OOO UZRTM	Repair works	Russia	100%
OOO Termit 63	Fire-proof and conditioning services	Russia	100%
OOO ElektroKipServis	Repair and maintenance of electric equipments	Russia	100%
OOO Svyaz 19	Installation and maintenance of corporate phone and data transmission lines	Russia	100%
OOO RegionStroiMontage	Repair and construction of production premises	Russia	100%
PJT 55	Railroad transportation services	Russia	100%

For majority-owned subsidiaries that incur losses, it is the Company's policy to recognize 100% of the losses, after first reducing the related minority interests' balances to zero. Further, when a majority-owned subsidiary becomes profitable, the Company will recognize 100% of profits until such time as the excess losses previously recorded have been recovered. Thereafter, the Company will recognize profits in accordance with the underlying ownership percentage.

The Parent Company and its subsidiaries maintain their accounting records and prepare their financial statements in Russian rubles in accordance with the requirements of Russian accounting and tax legislation. The financial statements used in preparing the accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, not recorded in the respective accounting books, which are appropriate to present the financial position, results of operations, and cash flows in accordance with US GAAP.

The principal adjustments are related to the (1) reserve for doubtful debts and inventory obsolescence, (2) timing of revenue and expense recognition, (3) deferred income taxes, (4) foreign currency translation, (5) depreciation and valuation of plant and equipment, (6) purchase accounting and consolidation, (7) impairment of assets, and (8) elimination of intercompany balances and transactions.

Foreign Currency Translation

The Russian Rouble is the Company's functional currency and the US dollar is the reporting currency, selected by the Company for the purposes of financial reporting.

The Russian economy was considered hyperinflationary in 1992-2002. Transactions and balances not already measured in US dollars (primarily Russian Roubles) have been re-measured into US dollars in accordance with the relevant provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation" as applied to entities in highly inflationary economies.

Under SFAS No. 52, revenues, costs, capital, and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities are translated at exchange rates prevailing on the balance sheet date. Exchange or translation gains and losses arising from remeasurement of monetary assets and liabilities that are not denominated in US dollars are credited or charged to non-operating results. The foreign exchange gain arising during

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3. Significant Accounting Policies (continued)

Foreign Currency Translation (continued)

the six months of 2002 of US\$2,321 resulted from the fact that the Company was in a net monetary ruble liability position during the course of the year, and the ruble has been subject to continuous devaluation during the course of six months ended June 30, 2002.

On January 1, 2003 the Russian economy ceased to be considered hyperinflationary. The Company's balance sheet at January 1, 2003 was translated at the current exchange rate of 31.78 Russian Roubles to US\$1 prevailing at January 1, 2003 to establish a new functional currency basis. Starting January 1, 2003 the functional currency financial statements are translated into the reporting currency utilizing period-end and period average exchange rates for balance sheet and income statement accounts, respectively, in accordance with the relevant provisions of SFAS No. 52. As a result of these translation procedures, a cumulative translation adjustment is recorded directly in shareholders' equity. No cumulative translation adjustment was made for the period during which the Russian economy was considered hyperinflationary. The differences between the new functional currency basis and the tax basis represent temporary differences, for which deferred taxes are recognized as other comprehensive loss.

The statement of changes of accumulated other comprehensive income (loss) for the six months ended June 30, 2003:

	Deferred tax recognized as other comprehensive loss	Cumulative translation adjustment	Total
Accumulated other comprehensive loss as at December 31, 2002	-	-	-
Other comprehensive loss for the six months ended June 30, 2003	(1,238)	(4,648)	(5,886)
Accumulated other comprehensive loss as at June 30, 2003	<u>(1,238)</u>	<u>(4,648)</u>	<u>(5,886)</u>

The official rate of exchange, as determined by the Central Bank of the Russian Federation for US\$1 was 30.35 Russian Roubles at June 30, 2003 (31.78 at December 31, 2002).

Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held on call with domestic banks with maturity of less than three months.

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3. Significant Accounting Policies (continued)

Trade Receivables

Trade receivables are stated net of an allowance for accounts, generally more than 180 days overdue, which are considered doubtful.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method. Costs generally include raw materials, labor, production overheads and interest for certain long-term contracts. A reserve for obsolete inventory is created for inventory which management believes may not be fully recoverable.

Short-Term Investments

The Company accounts for investments in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The Company determines the appropriate classification of investments at the time of purchase and re-evaluates such designation as of each balance sheet date.

Short-term investments include certain bank promissory notes and deposits, commercial promissory notes, which were acquired for short-term purposes, and are stated at fair value. Certain corporate securities that have an established market are stated at their quoted market value and classified as available for sale. Accordingly, net realized gains and losses are included in investment income or loss, while net unrealized gains and losses are included in other comprehensive income. Changes in the fair value of short-term investments other than marketable securities are recognized as income or expense.

Long-Term Investments

Long-term investments consist of equity securities, which do not have an established market, and are carried at cost. The carrying amount of long-term investments is reduced to recognize a decline other than temporary in the value of the investments, if necessary.

Taxes Receivables

Taxes receivable are represented predominantly by the input value-added tax ("VAT"), which is offsetable against future VAT charged on the Company's sales.

Property, Plant and Equipment

As of the acquisition date (mid-1997), Uralmash plant and equipment was stated at its fair value being depreciated replacement cost, which was determined by independent appraisal as of December 31, 1995 (as adjusted for additions and disposals through the acquisition date). Subsequent to the initial recognition, the Company allocated the amounts of negative goodwill of US\$395,333 and US\$21,878 resulting from the acquisitions of shares in Uralmash in 1997 and 1998, respectively, against the values of Uralmash plant and equipment acquired.

Since the acquisition date (September 1, 1999), Izhorskiye Zavody plant and equipment was stated at depreciated replacement cost of US\$357,260 determined by independent appraisal as of December 31, 1999, reduced by the amount of impairment loss of US\$310,355. An additional impairment loss of US\$1,015 was recognized during the year ended December 31, 1999.

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3. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

ZSMK plant and equipment is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of US\$45,468 and US\$2,271 resulting from the acquisitions of shares in ZSMK in 1997 and 1998, respectively, against the values of its plant and equipment.

Krasnoe Sormovo plant and equipment is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of US\$36,372 and US\$6,423 resulting from the acquisitions of Krasnoe Sormovo shares during 2000 and 2001, respectively, against the values of its plant and equipment.

Plant and equipment of Burovaya Tekhnika is stated at historical cost. Subsequent to the initial recognition, the Company allocated the negative goodwill of US\$6,747 resulting from the acquisitions of Burovaya Tekhnika shares during 2001 against the values of its plant and equipment.

UPET plant and equipment is stated at historical cost reduced by the amount of the negative goodwill of US\$895 resulting from the acquisition of UPET shares during 2002. As of the date of acquisition of UPET, land was recorded at its then current market value.

Plant and equipment of other subsidiaries, including other acquisitions made by the Company in 2002, is stated at historical cost. As of the date of acquisition of Pavlovsk Machinery, its plant and equipment were recorded net of impairment loss of US\$2,765.

As of June 30, 2002, there was no information available on the market value of the Company's plant and equipment because of its specialized nature and age, and because such items are rarely sold.

However, as of June 30, 2003 there was no information available that indicated that carrying value of the Company's plant and equipment was impaired.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

Buildings	less than 30 years
Machinery and equipment	less than 15 years
Vehicles	less than 3 years
Furniture and fixtures	less than 3 years

Maintenance costs relating to items of plant and equipment are expensed as incurred.

The Company capitalized interest of US\$850 and US\$494 during the six months ended June 30, 2003 and 2002.

Patents

Patents related to marine engineering that are issued by the US licensing bodies and acquired in a business purchase, are stated at fair value as of the date of acquisition. Amortization is computed using the straight-line method over their remaining estimated useful life of 15 years. As of June 30, 2003, net book value of such patents was US\$12,851.

Business Combinations, Goodwill and Other Intangible Assets

In June 2001, the FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. It also includes guidance

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3. Significant Accounting Policies (continued)

Business Combinations, Goodwill and Other Intangible Assets (continued)

on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. SFAS No. 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, SFAS No. 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Company has adopted SFAS No. 142 effective January 1, 2002. Application of the non-amortization and impairment provisions of SFAS No. 142 did not have a significant effect on the results of its operations or financial position.

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in purchase business combinations. With the adoption of SFAS No.142, "Goodwill and Other Intangible Assets", as of January 1, 2002, the Company discontinued amortization of goodwill. In accordance with SFAS No. 142, the Company tests goodwill for impairment on an annual basis. Additionally, goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. These events or circumstances would include a significant change in the business climate, legal factors, operating performance indicators, competition, sale or disposition of a significant portion of the business or other factors.

Negative Goodwill Arising on Acquisitions

When the cost of acquisition is less than the Company's interest in the fair values of identifiable assets acquired and liabilities assumed as at the date of the exchange transaction, the fair values of the non-current assets (generally, plant and equipment) acquired are reduced proportionally until the excess is eliminated.

Impairment of Long-Lived Assets

In 2001 and 2000, the Company followed the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which required that long-lived assets and certain intangibles to be held and used by the Company be reviewed for impairment.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets, except for goodwill, and supersedes SFAS No. 121 and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that opinion). This statement also amends Accounting Research Bulletin No. 41, "Consolidated Financial Statements", to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. The provisions of the statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company has adopted the new statement effective January 1, 2002. The adoption of SFAS No. 144 did not have a significant effect on the result of it operations or financial position.

SFAS No. 144 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount which

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3. Significant Accounting Policies (continued)

Impairment of Long-Lived Assets (continued)

the carrying value of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying value or fair value less costs to sell.

Social Funds

The Company contributes to the Russian Federation state pension fund, social insurance, medical insurance fund, and employment fund on behalf of its employees. The Company's contributions amount to approximately 35.6% and 35.6% during the six months ended June 30, 2003 and the six months ended June 30, 2002 of the portion of employees' compensation reported for the statutory purposes as salaries and are expensed as incurred. Total amounts expensed in connection with contributions to the above funds for the six months ended June 30, 2003 and June 30, 2002 were US\$17,946 and US\$11,476 respectively.

The Company has no other program or obligation for payment of post-retirement benefits to its employees.

Minority Interest

Minority interest represents interests of third parties in the net assets of the Company's subsidiaries.

Treasury Stock

Treasury stock is accounted for under the cost method, whereby a gain or loss is determined when the treasury stock is reissued or retired.

Revenue Recognition

Sales of Routinely Manufactured Equipment and Standard Services

The Company generates its revenue from the sales of goods to third party customers and the development of certain engineering documentation. For sales of goods produced in a standard manufacturing operation, even if produced to buyers' specification, and standard services, revenue is recognized, net of VAT, in the period in which the goods are dispatched from the plant or the services are provided, and invoices are issued. Generally, title passes to the customer upon shipment. However, there are certain circumstances where the Company is responsible for delivery and title passes and revenue is recognized at a later stage. In cases where a contract covers several homogenous or various routinely manufactured products, sales are recognized under the completed-contract or unit-of-delivery methods, with a unit of accounting generally being a fully assembled piece of equipment (e.g. a drilling rig or an excavator) rather than its individual components. Such sales cover the majority of contracts for the manufacturing and supply of drilling equipment, metallurgical equipment, mining equipment, and specialty steels, except for those specifically referred to below.

Billings made in the exchange for future shipments and costs of supplied equipment that does not meet the criteria for sales recognition are shown net as costs of uncompleted contracts in excess of related billings (in current assets), or billings on uncompleted contracts in excess of related costs (in current liabilities) separately for each contract.

Multiple-Element Revenue Arrangements

If a contract is segregated in a number of discrete stages and if the title to equipment or service passes to the customer upon the completion of a certain stage, revenue is recognized after each stage upon

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3. Significant Accounting Policies (continued)

Revenue Recognition (continued)

dispatch of goods from the plant or provision of a service, and issuance of invoice. The Company recognizes revenue upon the acceptance of such stages (“elements”) following the requirements of the FASB’s Emerging Issues Task Force (“EITF”) consensus on Issue No. 00-21, “Accounting for Multiple-Element Revenue Arrangements” provided that all of the following criteria are met: (a) the deliverable in the arrangement that has been delivered represents a separate earnings process; (b) any undelivered item in the arrangement is not essential to the functionality of the deliverable in the arrangement that has been delivered; and (c) there is objective and reliable evidence of fair value to allocate the arrangement consideration to the deliverables. Fair value allocated to each element of a multiple-element arrangement, which includes various products and/or services, generally approximates the values stated in the contracts with buyers. Through June 30, 2003, only a limited number of the Company’s contracts were accounted for as multiple-element revenue arrangements, specifically contracts to provide equipment and a service (e.g. installation or engineering) or for the supply of spare parts.

Construction-Type Contracts

Construction-type contracts generally include long-term contracts to manufacture design-build equipment, including continuous casting machines, nuclear power plant equipment, ships, and vessels.

A single contract or a group of contracts that otherwise meet the test for combining under Statement of Position No. 81-1, “Accounting for Performance of Construction-Type and Certain Production-Type Contracts” (“SOP No. 81-1”), may include several elements or phases, each of which the contractor negotiated separately with the same customer and agreed to perform without regard to the performance of others. The Company recognizes revenue upon the completion of each element or phase only if it meets all of the criteria of SOP No. 81-1, including, but not limited to, the following: (a) the terms and scope of the contract or project clearly call for separable phases or elements; (b) the separable phases or elements of the project are often bid or negotiated separately; (c) the Company has a significant history of providing similar services to other customers, and the similarity of such services and prices to other customers are verifiable; (d) the excess of the sum of the prices of the separate elements over the price of the total project is clearly attributable to cost savings incident to the combined performance of the contract obligation.

Sales of continuous casting machines and other complex mining and metallurgical equipment are accounted for under the percentage-of-completion method. The extent of progress toward completion under such contracts is generally measured based on the production stage of the various components or units.

Effective January 1, 2002, sales of ships and vessels are accounted for under the percentage-of-completion method. In the absence of readily determinable output measures, the extent of progress toward completion under such contracts is determined based on the ratio of costs incurred to-date to total estimated costs (“the cost-to-cost method”). The effect of the change from the completed-contract method applied to the revenue recognition for ships and vessels prior to 2002 to the percentage-of-completion method was not significant.

Sales under the long-term contracts for nuclear power plant equipment are accounted for under the percentage-of-completion method on a pro rata basis of cost of manufactured equipment (both supplied to customers and in finished goods) to total estimated contract costs. If the estimates of total contract costs can be made in ranges most likely to occur, those amounts are used. If the Company cannot determine “most likely” amounts, it uses the lowest probable level of profit in the range until it can

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3. Significant Accounting Policies (continued)

Revenue Recognition (continued)

estimate more precise results. Billings made by the Company and revenues recognized under the percentage-of-completion method are shown net, either as costs and recognized income not yet billed (in current assets), or billings in excess of costs and recognized income (in current liabilities) separately for each contract.

The majority of the Company's long-term contracts for nuclear power plant equipment provide for a deferred payment, generally limited to 10% of the total contract price, that is receivable upon the launch of the respective nuclear power plants in Iran, China, and India. Since the receipt of such money is subject to the conditions outside of the direct control of the Company, the Company treats such deferred payments as contingent consideration and defers them until the receipts can be assured. Furthermore, such contingent consideration is not used in the calculation of revenues to be recognized under the underlying contracts under the percentage-of-completion method.

Expense Recognition

Expenses are recognized in the period in which they are incurred.

Compensated Absences

The liability for employees' compensation for future absences is accrued if all of the following conditions are met: (a) the Company's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered; (b) the obligation relates to rights that vest or accumulate; (c) payment of the compensation is probable; and (d) the amount can be reasonably estimated.

Research and Development Costs

Research and development costs are expensed as incurred. These costs totaled US\$2,240 and US\$424 for the six months ended June 30, 2003 and June 30, 2002, respectively.

Investment Income

Investment income represents gains realized by the Company on transactions with government and corporate securities, bank notes, and commercial promissory notes that are routinely acquired for short or medium-term purposes and generate income in the form of interest, coupons or excess of sales prices over the original purchase prices. In addition, included in investment income are net gains resulting from the repurchase of the Company's own promissory notes at a discount.

Concentration of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, short-term and long-term investments, trade accounts receivable, and other receivables. Although the Company normally does not require collateral, it usually obtains advances from customers or customers' promissory notes or bank guarantees before launching significant or long-term contracts.

The Company primarily deposits available cash with several non-state owned Russian banks, including Promtorgbank, a related party. The Company also maintains short-term bank deposits and keeps short-term Russian bank promissory notes. Management regularly monitors the financial status of the banks where deposits are maintained.

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3. Significant Accounting Policies (continued)

Concentration of Credit Risk (continued)

The Company also has corporate promissory notes, classified as short-term investments, issued mostly by regular customers having a good credit history, or related parties, for which the collectability is reasonably assured.

Fair Value of Financial Instruments

The fair value of financial instruments, consisting of cash, short-term investments, accounts receivable and payable, non-convertible bonds, and debt instruments approximates their carrying values.

Related Party Transactions

The Parent Company and its subsidiaries, as part of their normal business, entered into a number of transactions with related parties, which form part of the unconsolidated group controlled by the Company's management. The related party transactions might not have been carried at arm's length, and the promissory notes issued to or received from other related parties might be illiquid outside the unconsolidated group of entities under common control, and are solely used as a settlement instrument within such group. Amounts due to and from related parties are carried at cost.

Comprehensive Income

The Company applies SFAS No. 130, "Reporting Comprehensive Income", which establishes comprehensive standards for the reporting and presentation of income and its components in a set of general-purpose financial statements.

Segment Information

Effective January 1, 2000, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". Under SFAS No. 131 operating segments are defined as components of an enterprise about which separate financial information is available, that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company has six reportable operating segments: oil and gas equipment, mining equipment, specialty steels, equipment for nuclear power plants, shipbuilding and machinery manufacturing services. Information about operating segments, including geographic information, is presented in Note 25.

During 2003, in the context of the restructuring program the Company launched the previous year, the management of the Company segregated its machinery production operations from its engineering operations. No significant additional cost was incurred as a result of this restructuring. As a result, a new business segment, "Machinery manufacturing services", was formed to account for two main activities: a) the production of equipment based on OMZ's proprietary engineering; and b) the production of equipment based on third party engineering, for various industries, including oil and gas, mining and metallurgical equipment. The segment encompasses certain production assets of Uralmash and Izhora plants. Results from manufacturing of equipment for the Group companies have been eliminated as intra-group transactions in the Group consolidated financial statements.

Comparative data for the six months ended June 30, 2002 were adjusted for consistency with the current year presentation.

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3. Significant Accounting Policies (continued)

Current Accounting Pronouncements

Accounting for Asset Retirement Obligations

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement deals with the costs of closing facilities and removing assets. SFAS No. 143 requires entities to record the fair value of a legal liability for an asset retirement obligation in the period it is incurred. This cost is initially capitalized and amortized over the remaining life of the asset. Once the obligation is ultimately settled, any difference between the final cost and the recorded liability is recognized as a gain or loss on disposition. SFAS No. 143 is effective for years beginning after June 15, 2002. The adoption of the provisions of SFAS No. 143 is not expected to have a material impact on the Company's results of operations, financial position, or cash flows.

Accounting for Costs Associated with Exit or Disposal Activities

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement nullifies Emerging Issues Task Force No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," which required that a liability for an exit cost be recognized upon the entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of the provisions of SFAS No. 146 is not expected to have a material impact on the Company's results of operations, financial position, or cash flows.

Accounting for Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123". SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation", to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of SFAS No. 123 to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. SFAS No. 148 also amends APB Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. The amendments to SFAS No. 123 introduced in SFAS No. 148 effective for financial statements for fiscal years ending after December 15, 2002. The adoption of SFAS No. 148 did not have a material impact on the Company's results of operations, financial position, or cash flows.

Accounting for Guarantees

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The disclosure provisions of FIN No. 45 are effective for financial statements of annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The adoption of the provisions of FIN No. 45 is not expected to have a material impact on the Company's results of operations, financial position or cash flows.

OA OMZ (Uralmash-Izhora Group)

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The six months ended June 30, 2003

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3. Significant Accounting Policies (continued)

Current Accounting Pronouncements (continued)

Consolidation of Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities". FIN No. 46 defines the concept of "variable interests" and requires existing unconsolidated variable interest entities to be consolidated into the financial statements of their primary beneficiaries if the variable interest entities do not effectively disperse risks among the parties involved. FIN No. 46 applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003.

If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN No. 46 becomes effective, the enterprise must disclose information about those entities in all financial statements issued after January 31, 2003. The interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years, with a cumulative-effect adjustment as of the beginning of the first year restated. The Company is currently analyzing whether the adoption of the provisions of FIN No. 46, and specifically possible consolidation of certain previously unconsolidated entities, will have a material impact on the Company's future results of operations, financial position, or cash flows.

At its meeting of October 8, 2003, the Financial Accounting Standards Board deferred the latest date by which all public entities must apply FIN 46, to the first reporting period ending after December 15, 2003

Accounting for Revenue Arrangements with Multiple Deliverables

In November 2002, the FASB's EITF issued a revised consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". In an arrangement with multiple deliverables, the EITF revised the principles and application guidance that should be used to determine (a) how the arrangement consideration should be measured, (b) whether the arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. Revised Issue No. 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company believes that the adoption of the provisions of revised Issue No. 00-21, and specifically possible recognition of revenues upon the delivery of components of equipment rather than entire units, could have a material impact on the Company's future results of operations, financial position, or cash flows.

Derivative Instruments and Hedging Activities

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The Company believes that the adoption of this standard will have no material impact on its consolidated financial statements.

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes

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3. Significant Accounting Policies (continued)

Current Accounting Pronouncements (continued)

Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (continued)

standards for how classification and measurement certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Company believes that the adoption of this standard will have no material impact on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform with current year presentation. Such reclassifications had no impact on net income or shareholders' equity.

4. Business Combinations

Acquisition of Biolink Technologies International Inc.

In 2002, the Company purchased 100,000 of ordinary shares of BioLink, a security technology provider specializing in the development, manufacturing and marketing of advanced fingerprint biometric products, based in Florida, USA, representing an ownership interest of 0.6%, for cash of US\$670 from Speed Arrow, a related party.

In June 2003 the Company increased its ownership in BioLink to 38.6%. By acquiring the additional stake the Company obtained 51.8% of the voting shares of Biolink. To determine the results of the acquisition accounted for as a purchase, net assets of Biolink were recorded at their fair values. The total value of the acquired share of the net assets of Biolink amounted to US\$317.

The fair value of assets acquired and liabilities assumed were as follows as of the acquisition date:

	<u>June 30, 2003</u>
Cash	82
Trade receivables	143
Inventories	826
Prepaid Expenses	40
Plant and equipment	116
Other assets	405
Trade accounts payable and accruals	(531)
Deferred Revenue	(56)
Taxes payable	(6)
Payroll and related liabilities	(118)
Long-term debt	(40)
Other payable	(40)
Net assets as of the acquisition date	822
Minority interest - 61.4% as of June 30, 2003	(504)
Net assets acquired	317
Consideration paid by the Company	5,569
Goodwill	5,252

OAO OMZ (Uralmash-Izhora Group)

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(In thousands of US dollars, unless otherwise stated)

4. Business Combinations (continued)

Acquisition of Biolink Technologies International Inc. (continued)

Impact of the acquisition on the consolidated statement of cash flows for the six months ended June 30, 2003:

	Six months ended June 30, 2003
Cash paid by the Company	3,417
Less cash of Biolink	(82)
Cash flows on acquisition, net of cash acquired	3,335

Acquisition of OAO Zarubezhenergoproekt

In January 2003, the Parent Company acquired a controlling 50.94% interest in OAO Zarubezhenergoproekt, a research and development institute specializing in engineering and new technology development for both nuclear and traditional energy generation plants, for \$1,165.

To determine the results of the acquisition accounted for as a purchase, net assets of Zarubezhenergoproekt were recorded at their fair values. The total value of the acquired share of the net assets of Zarubezhenergoproekt amounted to US\$654.

	April 01, 2003
Cash	50
Trade receivables	99
Inventories	268
Taxes receivable	17
Other current assets	29
Plant and equipment	1,219
Other non-current assets	19
Trade accounts payable and accruals	(14)
Advances received	(38)
Taxes payable	(266)
Payroll and related liabilities	(38)
Other payable	(61)
Net assets as of the acquisition date	1,283
Minority interest - 50.94% as of April 01, 2003	(629)
Net assets acquired	654
Consideration paid by the Company	1,165
Goodwill	511

Impact of the acquisition on the consolidated statement of cash flows for the six months ended June 30, 2003:

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(In thousands of US dollars, unless otherwise stated)

4. Business Combinations (continued)

Acquisition of OAO Zarubezhenergoproekt (continued)

	Six months ended June 30, 2003
Cash paid by the Company	1,132
Less cash of Zarubezhenergoproekt	(50)
Cash flows on acquisition, net of cash acquired	1,082

5. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	30 June, 2003	31 December, 2002
Cash in USD bank accounts	6,069	2,343
Cash in RBS bank accounts	15,876	25,838
Cash in EUR bank accounts	569	18
Cash in other currency	1,371	-
Cash equivalents	1,181	-
Cash and cash equivalents of the Parent Company and Russian subsidiaries	25,066	28,199
Cash in USD bank accounts	692	1,203
Cash in EUR bank accounts	-	128
Other	-	220
Cash and cash equivalents of foreign subsidiaries	692	1,551
Total cash and cash equivalents	25,758	29,750

Included in cash and cash equivalents as of June 30, 2003 and December 31, 2002 were cash and cash equivalents in several bank accounts with ZAO Promtorgbank (“Promtorgbank”), a related party, in the total amount of US\$14,187 and US\$16,799 respectively.

6. Short-Term Investments

Short-term investments consisted of the following:

	30 June, 2003	31 December, 2002
Corporate promissory notes	3,140	8,120
Bank promissory notes	2,333	3,519
Other	90	295
Total short-term investments	5,563	11,934

ОАО ОМЗ (Uralmash-Izhora Group)

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6. Short-Term Investments (continued)

Corporate Promissory Notes

Corporate promissory notes represent obligations of various Russian and foreign legal entities, primarily the Company's trade debtors, in the form of promissory notes that generally do not have an established market. They are reported net of valuation reserve.

7. Trade Accounts Receivable

Trade accounts receivable consisted of the following:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
Trade accounts receivable	41,336	60,520
Provision for doubtful accounts	(7,379)	(5,936)
	<u>33,957</u>	<u>54,584</u>
Long-term trade accounts receivable	<u>3,901</u>	<u>13,508</u>

Long-term trade accounts receivable are represents deferred payment of US\$897 and US\$3,005 under long-term construction-type contracts for the supply of nuclear power plant equipment for Iran and China, respectively, that in accordance with the contract terms for the manufacturing of nuclear power plant equipment is receivable when the nuclear power plants in India, China, and Iran are commissioned and accepted by the customer (Note 10). No interest is charged on these receivables.

8. Related Party Transactions

During the six months ended June 30, 2003 and the year ended December 31, 2002, the Company had transactions or balances with the following of its shareholders or companies under their control or control of, or influence by, management :

- Promtorgbank, incorporated in Russia
- ОАО Industrial Group NIPEK-Bioprocess, incorporated in Russia
- ЗАО Neftyanoi Investitsionnyi Dom, incorporated in Russia
- ООО NitsTyazhMash, incorporated in Russia
- ООО Machinery Engineering, incorporated in Russia
- ЗАО AtomKomplektPostavka, incorporated in Russia
- ООО Resource, incorporated in Russia
- BioLink Technologies International, Inc. ("BioLink"), incorporated in the USA (Note 4)
- Lotterby Limited, incorporated in British Virgin Islands
- ЗАО Atomstroyexport incorporated in Russia (Notes 1, 13)
- ЗАО Atomenergoyexport (AEE) incorporated in Russia (Notes 1, 13)

OAOMZ (Uralmash-Izhora Group)

Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

(In thousands of US dollars, unless otherwise stated)

8. Related Party Transactions (continued)

Amounts due from related parties consisted of the following:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
ZAO Atomstroyexport	15,470	-
Promtorgbank	1,986	172
Lotterby Limited	1,225	1,174
Speed Arrow Limited	-	-
OOO Resource	595	857
BioLink	-	347
Management	-	20
Other	175	348
Total due from related parties	<u>19,451</u>	<u>2,918</u>

As of June 30, 2003, a receivable from Promtorgbank consisted of US\$986 of Promtorgbank promissory notes and US\$1,000 in a deposit account.

In 1999, the Company entered into several agreements related to the construction of Liang Yung Gang nuclear power plant in China for the total amount of US\$134,902. In 2002, the Company entered into a long-term agreement related to the construction of Kudan-Kulam nuclear power plant in India for the total amount of US\$285,761. Most of such long-term agreements were conducted with Atomstroyexport ("ASE"), which acts as general contractor for all construction projects at nuclear power plants conducted by the Russian Federation in foreign countries. Accordingly, ASE has been providing the Company with significant advance financing under the above long-term construction-type contracts to supply equipment for the respective nuclear power plants. Since January 2003 ASE is considered a related party to the Company.

As at June 30, 2003, the amount due from Atomstroyexport of US\$15,470 represents trade receivable for dispatched nuclear power plant equipment. During the six months of 2003 sales of nuclear power plant equipment to ASE totalled US\$35,023, which exceeds 10 % of total sales of the Company for the six months ended June 30, 2003.

Amounts due from related parties, long-term, consisted of the following:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
ZAO Atomstroyexport	12,673	-
Promtorgbank – trust fund, principal	675	619
Promtorgbank – trust fund, interest	1,618	1,570
Promtorgbank – promissory notes	220	40
Other	148	145
Total due from related parties – long-term	<u>15,334</u>	<u>2,374</u>

Trust fund represents cash deposited by the Parent Company in Promtorgbank for a period of 5 years starting April 5, 2000.

As of June 30, 2003, the amount due to the Company from Atomstroyexport was represents deferred payment of US\$3,741, US\$8,177 and US\$755 under long-term construction-type contracts for the supply of nuclear power plant equipment for Iran, China, and India, respectively, that in accordance with the contract terms for the manufacturing of nuclear power plant equipment is receivable when the nuclear power plants in India, China, and Iran are commissioned and accepted by the customer (Note 10). No interest is charged on these receivables.

OA O OMZ (Uralmash-Izhora Group)

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8. Related Party Transactions (continued)

Current liabilities to related parties consisted mainly of advances received from Atomstroyexport for nuclear power plant production and loans granted to the Company by Promtorgbank:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
ZAO Atomstroyexport	69,289	-
Promtorgbank	8,375	3,195
Other	805	1,864
Total due to related parties	<u>78,469</u>	<u>5,059</u>

The amount due to Promtorgbank as of June 30, 2003, included loans of US\$7,822 and US\$553 of liabilities for bank charges. The loans are denominated in rubles and bear interest from 12 % to 24%.

Included in the amount due to Promtorgbank as of December 31, 2002, was US\$1,353 of short-term borrowings, US\$1,153 and US\$689 for information and telecommunication services and liabilities for bank charges, respectively.

The loans are denominated in rubles, bear interest from 12 % to 24%, and mature in 2003.

During the six months ended June 30, 2003 and 30 June 2002, the Company accrued interest expense of US\$288 and US\$214 respectively on loans issued by Promtorgbank.

9. Inventories

Inventories consisted of the following:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
Materials and spare parts	75,179	61,455
Work-in-process	99,089	83,633
Finished goods	50,670	41,163
Total inventories, at cost	224,938	186,251
Provision for obsolete inventories	(23,512)	(24,515)
Total inventories, net	<u>201,426</u>	<u>161,736</u>

As of June 30, 2003 and December 31, 2002, US\$29,324 and US\$39,179 of inventories were pledged under several loan agreements, respectively (Note 17).

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10. Accumulated Costs and Related Billings

Percentage-of-Completion Method

Balances related to arrangements accounted for under the percentage-of-completion method consisted of the following:

	30 June, 2003	31 December, 2002
Costs and recognized income:		
Shipbuilding	47,832	46,827
Nuclear power plant equipment	11,537	4,771
Oil and gas equipment	1,007	2,569
Total costs and recognized income	60,376	54,167
Accumulated billings or deferred revenue:		
Shipbuilding	(44,837)	(46,340)
Nuclear power plant equipment	(25,590)	(18,916)
Oil and gas equipment	(332)	(2,334)
Total accumulated billings or deferred revenue	(70,759)	(67,590)
Total costs and recognized income not yet billed	27,372	23,195
Total billings in excess of costs and recognized income, short-term	(21,181)	(23,110)
Total billings in excess of costs and recognized income, long-term	(16,574)	(13,508)

As of June 30, 2003, the long-term portion of billings in excess of costs and recognized income represented deferred payment that is due upon the commissioning of the respective power plants (Notes 7, 8).

Completed Contract Method

Balances related to arrangements accounted for under the completed-contract method consisted of the following:

	30 June, 2003	31 December, 2002
Accumulated costs:		
Metallurgical equipment	693	1,712
Mining equipment	823	776
Oil and gas equipment	963	1,660
Total accumulated costs	2,479	4,148
Accumulated billings:		
Mining equipment	(1,109)	(859)
Metallurgical equipment	(911)	(2,156)
Oil and gas equipment	(1,885)	(2,642)
Total accumulated billings	(3,905)	(5,657)
Excess of accumulated billings over related costs	(1,426)	(1,509)

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Notes to Interim Consolidated Financial Statements (unaudited)

The six months ended June 30, 2003

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11. Other current assets

Other current assets consisted of the following:

	30 June, 2003	31 December, 2002
Taxes receivable	54,788	28,233
Other current assets	29,220	10,081
Total other current assets	84,008	38,314

As of June 30, 2003 other current assets include accounts receivable from Severstalmash related to disposal of the Metallurgical Equipment (METEQ) business segment totaling US\$14,000 settled in October 2003.

Taxes receivable are represented predominantly by the input value-added tax ("VAT"), which is offsettable against future VAT charged on the Company's sales.

12. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Land	Buildings	Machinery and Equipment	Vehicles	Furniture and Fixtures	Equipment under Construction	Total
Net book value as of December 31, 2002	2,617	114,458	60,502	598	5,226	17,958	201,359
Cumulative translation adjustments (Note 3)	123	5,237	2,677	22	192	846	9,097
Property, plant and equipment of new subsidiaries	-	722	112	1	41	510	1,386
Additions	-	1,562	1,222	265	6,355	7,355	16,759
Disposals	-	(210)	(4,416)	(114)	(854)	(2,724)	(8,318)
Depreciation charge for the year	-	(5,209)	(5,803)	(179)	(1,805)	(5)	(13,001)
Release from reserve for obsolete equipment under construction	-	-	-	-	-	101	101
Impairment loss	-	449	36	1	3	-	489
Transfer from Equipment under Construction to PPE	-	287	1,398	-	207	(1,892)	-
Net book value as of June, 2003	2,740	117,296	55,728	594	9,365	22,149	207,872

The Company's plant and equipment of US\$36,904 and US\$37,771 was pledged for the short-term and long-term bank loans as of June 30, 2003 and December 31, 2002, respectively.

Accumulated depreciation amounted to US\$106,500 and US\$93,504 as of June 30, 2003 and December 31, 2002, respectively.

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13. Long-Term Investments

Long-term investments consisted of the following:

	30 June, 2003		31 December, 2002	
	% of ownership	Amount	% of ownership	Amount
Promtorgbank	14.9%	7,094	14.9%	6,775
ZAO Atomenergoexport	40.0%	5,088	-	-
OAO Volgograd Shipbuilding Plant	19.0%	2,236	-	-
OAO CKB Korall	30.4%	1,994	30.4%	1,956
ZAO Transkat	15.0%	504	15.0%	480
OAO Shipbuilding Plant Lotos	6.3%	290	6.3%	277
Ural Motorbikes Plant	19.5%	282	19.5%	270
OAO Volgograd Plant of Burovaya Tekhnika	2.0%	249	2.0%	238
OAO CKB Lazurit	32.7%	209	32.7%	200
AOZT Russian Company of Shelf Development	0.8%	126	0.8%	121
ZAO Noviy registrator	20.0%	105	-	-
OAO IMZ Ural	-	-	19.0%	1,830
BioLink	-	-	0.6%	670
Other	-	1,094	-	11
		19,271		12,828

As of June 30, 2003 and December 31, 2002, Promtorgbank shares were recorded net of valuation reserve for other than temporary decline in value of US\$3,644 and US\$3,480 respectively. In addition, valuation allowance of US\$844 was made in respect of Promtorgbank shares acquired prior to December 31, 2001, and recorded as part of investment loss in the year ended December 31, 2002.

On 8 January 2003, the Company acquired approximately 20% of the issued shares in ZAO Atomenergoexport ("AEE") for a total consideration of approximately US\$4.9 million. As 50% of AEE's shares are held as treasury shares, this effectively gave the Company a 40% interest. The Russian government holds a special or "golden" share in AEE, which, upon its creation in 1994, afforded it certain special rights for a period of three years. As at the date of these Financial Statements, the Russian government had not indicated that it wished to extend the period during which it had the benefit of these rights. AEE's headquarters are in Moscow and it has representative offices in China, Iran and India, as well as in both Western and Eastern Europe. The Company is currently evaluating its investment in AEE and is considering, amongst other things, whether to increase its stake in AEE to an effective controlling stake by acquiring further shares in AEE.

AEE's primary business is the export of nuclear power plant equipment and services and since its foundation in 1973 AEE has focused on the management of intergovernmental contracts for technical assistance in Eastern Europe and Finland. AEE owns 49% of the issued shares interest in ASE. The other major shareholders in ASE are Zarubezhatomenergostroy, which is controlled by the Ministry of the Russian Federation for Atomic Energy, and TVEL Corporation (which is also owned by the Russian state). As approximately 9% of ASE's shares are held as treasury shares, AEE has an effective 54% interest in ASE. ASE is one of the leading engineering, procurement, installation and commissioning ("EPIC") contractors for the nuclear equipment industry. Since 1973, AEE and ASE have constructed 29 generation blocks for nuclear power plants

In the 1st half of 2003, the Company purchased an 18.96% stake in Volgograd Shipbuilding Plant, which specializes in the manufacturing of river-sea vessels as well as other equipment for the oil and gas industry, for a total cash consideration of US\$2,170.

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13. Long-Term Investments (continued)

In April 2002, the Company acquired 603,169 shares of OAO CKB Korall, a Ukrainian-based naval engineering and construction bureau specializing in engineering of complex mobile offshore drilling units for cash of US\$1,934 (Note 26).

No information was available on the fair values of the Company's investments in Promtorgbank, and other entities as of June 30, 2003 and December 31, 2002. The non-application of equity method for certain minor equity investments included in the "Other" line did not have a material impact on the Company's financial position or results of its operations.

14. Advances Received and Deferred Revenue

Customer advances and deferred revenues consisted of the following:

	<u>30 June, 2003</u>	<u>31 December, 2002</u>
Chinese Ministry of Defense	39,396	-
Greece Ministry of National Defense	4,931	-
OAQ Tyumen Oil Company	3,652	2,937
Gazflot	3,205	-
ZAO Poseidon	3,109	-
OOO Gazresourse	3,109	2,421
OAQ Magnitogorsk Iron Works	1,981	2,358
OOO OMZ MOIT	1,348	-
ZAO Uralneftebursnab	1,285	-
OAQ LMZ	1,237	-
Lenskoe GBU Vodnih putey	1,135	-
Pecheraneftgaz	923	-
Itochu Corporation (Japan)	692	5,902
RN-Leasing	193	9,651
ZAO Atomstroyexport	-	40,648
Other	39,326	27,222
Total advances received and deferred revenue	<u>105,522</u>	<u>91,139</u>

15. Income Taxes

Effective January 1, 2002, the Russian Federation profit tax rate was reduced to 24%.

The income tax provision consisted of the following for the six months ended:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Current tax expense	1,657	3,543
Deferred tax expense (benefit)	1,559	5,379
	<u>3,216</u>	<u>8,922</u>

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15. Income Taxes (continued)

The reconciliation between the income tax expense computed by applying the Russian enacted statutory tax rate of 24% to the income before income taxes presented in the accompanying consolidated financial statements to the income tax expense reported in the consolidated financial statements is as follows for the six months ended:

	June 30, 2003	June 30, 2002
Income tax expense computed on income before income taxes at statutory tax rates	3,563	3,864
Tax effect of permanent differences:		
Effect of foreign exchange differences	-	(670)
Non-deductible expenses	493	280
Non-taxable gain on sale of non-core business units	(3,091)	(31)
Non-taxable gain on release from tax penalties	(133)	-
Other permanent differences	2,384	2,443
Temporary differences not recognized as measured by the change in the valuation allowance during the year	-	3,036
Income tax expense reported in the accompanying consolidated financial statements	3,216	8,922

The deferred tax balances were calculated by applying the statutory tax rate of 24% in effect at the balance sheet dates to the temporary differences between the tax basis of assets and liabilities. The amounts reported in the accompanying consolidated financial statements are comprised of the following:

	June 30, 2003	December 31, 2002
Deferred tax assets current:		
Revenue deferrals under long-term contracts	313	4,915
Deductible inventory provisions	3,538	3,777
Other accruals and provisions	7,492	7,691
Total deferred tax assets – current	11,343	16,383
Deferred tax liabilities – current:		
Inventories expensed for tax purposes	(6,423)	(7,281)
Revenue accruals under percentage-of-completion method	(4,052)	(1,264)
Other	(4,497)	(761)
Total deferred tax liabilities – current	(14,972)	(9,306)
Valuation allowance for deferred tax assets	(4,248)	(10,591)
Net deferred tax assets – current	(3,877)	(15,488)
Net deferred tax liabilities – current	(7,877)	(3,514)
Deferred tax assets non – current:		
Property, plant and equipment	9,912	1,125
Available loss carry-forwards	1,304	2,598
Other	4,947	-
Total deferred tax assets – non-current	16,163	3,723

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15. Income Taxes (continued)

	June 30, 2003	December 31, 2002
Deferred tax liabilities – non-current:		
Difference in depreciation	(11,502)	(1,431)
Interest accruals on trust fund	(395)	(395)
Total deferred tax liabilities – non-current	(11,897)	(1,826)
Valuation allowance for deferred tax assets	(15,829)	(3,368)
Net deferred tax assets – non-current	-	-
Net deferred tax liabilities – non-current	(11,563)	(1,471)

For financial reporting purposes, a valuation allowance has been recognized to reflect management's estimate of the deferred tax assets that are not likely to be realized.

16. Taxes Payable

Taxes payable consisted of the following:

	30 June, 2003	31 December, 2002
VAT	30,574	24,120
Tax penalties	16,230	14,986
Unified social tax	8,713	8,164
Unified social tax penalties	6,085	5,812
Income tax	5,199	6,131
Road-users' tax	2,229	4,910
Personal income tax	1,626	1,847
Property tax	2,685	1,565
Other taxes	2,081	1,603
Total taxes payable	75,422	69,138
Less long-term portion	(34,587)	(33,236)
Taxes payable, current portion	40,835	35,902

Tax Restructuring

The long term taxes payables as of June 30, 2003 represents restructured taxes payables in accordance with a restructuring agreement with the state and local budgets and non-budget funds.

Uralmash

On September 18, 2000, Uralmash signed a restructuring agreement with the state and local budgets and non-budget funds to repay its overdue taxes of US\$14,985 during the period of 2001-2010, and tax penalties of US\$9,074 during the period of 2001-2010. During 2001, Uralmash signed additional restructuring agreements with the state and local budgets to repay its overdue tax penalties of US\$2,216 during the same period. These restructured tax obligations bear interest at one tenth of the refinancing rate (which was approximately 28% per annum as of the restructuring date).

During 2002, Uralmash signed two restructuring agreements with non-budget funds (i) for repayment of its overdue road-users' tax of US\$2,993 during the period of 2002-2006 and related penalties of US\$1,670 during the period of 2006-2010, and (ii) for repayment of 15% (or US\$848) of the total

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16. Taxes Payable (continued)

Tax Restructuring (continued)

penalties accrued for social taxes of US\$5,655 during the period of 2003-2006. In accordance with the restructuring agreement the remaining 85% of the social taxes penalties will be fully forgiven by the government if Uralmash continue to make its payments under the restructuring agreements on time.

During the six months ended June 30, 2003 and June 30, 2002, Uralmash paid US\$1,444 and US\$1,286 of overdue taxes, respectively.

Izhorskiye Zavody

On March 10, 2000, Izhorskiye Zavody signed a restructuring agreement with the state budget to repay its overdue taxes of US\$4,074 during the period of 2000 – 2006, and tax penalties of US\$3,515 during the period of 2006 – 2010. These restructured tax obligations bear interest of one tenth of the CBR refinancing rate (which was approximately 55% per annum as of the restructuring date).

On December 27, 2001, Izhorskiye Zavody signed another restructuring agreement with the state social non-budget funds to repay its overdue social taxes and related penalties of US\$30,345 during the period of 2002-2006, net of US\$6,718 reversal of pension fund penalties.

During the six months ended June 30, 2003 and June 30, 2002, Izhorskiye Zavody paid US\$1,064 and US\$1,432 of overdue taxes, respectively.

UPET

As of June 30, 2003 and of December 31, 2002, UPET had US\$1,952 and US\$1,883 of taxes and related tax penalties restructured by the Ministry of Public Finance of Romania over the period through August 2006. Such restructured tax obligations bear interest at 0.06% per day. In addition, in case UPET does not comply with established schedule of payments it will become subject to additional accruals of US\$747 that had previously been forgiven by the Romanian tax authorities.

Pursuant to the statutory legislation on restructuring, the above tax penalties might be fully or partially forgiven by the government if the subsidiaries make their payments under the restructuring agreements ahead of the schedule above, as follows: 50% of the penalties will be forgiven if the subsidiaries repay 50% of the principal due within two years; and the entire amount of penalties due will be forgiven if the subsidiaries repay 100% of the principal due within four years.

Aggregate maturities of taxes payable as of June 30, 2003, were as follows:

2003	40,835
2004	5,764
2005	5,720
2006	10,137
2007	3,784
2008	3,358
2009	3,359
Thereafter	2,465
	<hr/>
	75,422
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OAO OMZ (Uralmash-Izhora Group)

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17. Short-Term Borrowings

Short-term borrowings consist of the following:

	30 June, 2003		31 December, 2002	
	Annual Rate	Amount	Annual Rate	Amount
Alfa-Bank	11%-14%	5,891	13-14%	8,960
Raiffeisen Bank	-	-	7%	6,017
Promstroybank	13%	2,003	13%	4,013
MMB	9%	7,000	-	-
Gazprombank	11%	4,007	-	-
Nizhegorodskiy Promstroybank	-	-	11%	606
Short-term borrowings in USD		18,901		19,596
Sberbank	13% -18%	27,700	18%	24,466
Gazprombank	18%	6,491	18%	3,146
Vneshtorgbank	18%	329	18%	2,370
Alfa-Bank	-	-	21%	1,894
MDM Bank	16%	329	-	-
Nizhegorodskiy Promstroybank	-	-	15.5%	852
Short-term borrowings in RBS		34,849		32,728
BCR (Romania), Romanian lei	23%	304	32-55%	604
Other		-		401
Total short-term borrowings		54,054		53,329

As of June 30, 2003 Alfa-Bank loans were secured by plant and equipment with book amount of US\$3,646. As of December 31, 2002, Alfa-Bank loans were secured by the Company's finished goods with carrying amount of US\$9,743.

As of June 30, 2003 and of December 31, 2002, Alfa-Bank loans received by Izhorskiye Zavody for US\$2,448 and US\$7,397, respectively, and Alfa-Bank loans received by ZAO KomplektAtomIzhora for US\$3,442 and US\$1,563, respectively, were secured by the guarantee of ASE. As of June 30, 2003 based on the agreement with ASE, a portion of advances for future deliveries is effected through the arrangement of loans to the Company, that are guaranteed by ASE. The Company repays the loan upon the receipt of the payment for delivered equipment. Interest expense incurred with respect to such transactions was included in the total contract price with ASE.

As of December 31, 2002, Alfa-Bank loans received by Specstal for US\$1,894 were secured by the guarantees of OAO OMZ and Izhorskiye Zavody.

Loans received from Sberbank as of June 30, 2003 and of December 31, 2002, were secured by the Company's plant and equipment with net book value of US\$25,590 and US\$21,498, and finished goods with carrying amount of US\$24,905 and US\$13,889, respectively.

As of June 30, 2003 and of December 31, 2002, Gazprombank loans were secured by the Company's plant and equipment with net book value of US\$5,329 and US\$7,027 of which US\$1,909 and US\$3,715 were also pledged under Sberbank loans, respectively. As of June 30, 2002, Gazprombank loans were pledged both by finished goods with total carrying amount of US\$1,860.

As of June 30, 2003 Vneshtorgbank loans were secured by the guarantee of the Company. As of December 31, 2002 Vneshtorgbank loans were secured by finished goods with carrying amount of US\$6,055.

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17. Short-Term Borrowings (continued)

As of June 30, 2003 loan received from MMB by SpetsStal was secured by work-in-progress and finished goods with carrying amount of US\$1,776 and guaranteed by Izhorskiye Zavody.

As of June 30, 2003 loans received from MDM bank were secured by the guarantee of the Company and secured by finished goods with carrying amount of US\$588.

As of December 31, 2002, loans received from Nizhegorodskiy Promstroybank were secured by plant and equipment and inventory with carrying amount of US\$507 and US\$6,416, respectively.

As of December 31, 2002, a loan received from Raiffeisen Bank was secured by the Company's common stock with carrying value of US\$14,140 and guaranteed by OMZAR.

18. Non-Convertible Bonds

On 6 September 2001, the Parent Company issued the second series of 390,000 bonds with a nominal value of 1,000 roubles per bond due to mature 900 days from the date of issue. The entire bond issue was sold at auction, for US\$13,227, net of issuance costs of US\$16. The bonds bear interest at a variable rate determined by the board of directors with interest payable twice a year. Interest on the first, second, third, fourth and fifth coupons accrued at a rate of 20.85%, 20.50%, 18.10%, 16.50% and 16.50% per annum, respectively.

On 4 October 2001, the Parent Company issued a third series of 390,000 bonds with a nominal value of 1,000 roubles per bond due to mature 900 days from the date of issue. The entire bond issue was sold at auction for US\$13,213, net of issuance costs of US\$16. The bonds bear interest at a variable rate determined by the board of directors with interest payable twice a year. Interest on the first, second, third and fourth coupons accrued at a rate of 20.85%, 20.15%, 18.50% and 14.00% per annum, respectively. On 7 March 2003, the Parent Company issued an irrevocable offer for early redemption of the bonds that may be exercised by holders on 25 September 2003 at par plus accrued interest. In 2001 the Company repurchased 161,191 of these bonds and subsequently resold them to the third parties at market value.

The repayment of principal of the bonds issued on 6 September 2001 and 4 October 2001 is guaranteed for a total amount of US\$24,544 by Uralmash.

Also on March 6, 2003 the Parent Company issued a fourth series of 900,000 bonds with a nominal value of 1,000 roubles per bond. The entire bond issue was sold at auction for US\$28,200, net of issuance costs of US\$290. The repayment of principal and coupons for a total amount of US\$29,654 is guaranteed by Uralmash. The bonds have a six year maturity, pay semi-annual coupons and feature an auction rate re-set mechanism. The bonds are redeemable at the option of the holders in September 2004 and August 2006 at par. Interest on the first three coupons is accrued at a rate of at 13% per annum.

Bonds of the 2nd, 3rd and the 4th series are listed at MICEX and are traded on RTS (with the exception of the fourth series). The bonds are not convertible into the share capital of the Parent Company and holders of the Parent Company's bonds are not entitled to any additional rights or preferences.

As of June 30, 2003 the aggregate maturities of non-convertible bonds were as follows: 2004 – US\$12,850 and 2009 – US\$29,654 (at par).

As of June 30, 2003 and December 31, 2002, US\$2,413 and US\$1,484 of interest accrued on bonds held by third parties were included in other accounts payable and accruals, respectively. During the six months ended June 30, 2003 and 2002, the total interest expense under four and three of non-convertible bonds series held by third parties was US\$2,659 and US\$1,649 respectively.

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19. Long-Term Debt

Long-term debt consists of the following:

	30 June, 2003	31 December, 2002
ING-Bank N.V.	30,000	30,000
Rurkela (Ministry of Finance)	2,639	2,639
Bhilai (Ministry of Finance)	1,312	1,312
Uraltransportbank	937	859
Alfa-Bank	2,267	677
Other	-	232
Total long-term debt	37,155	35,719
Less current portion	(4,113)	(3,248)
Long-term debt, non-current	33,042	32,471

In November 2002, the Parent Company obtained an unsecured US\$30,000 loan from the London branch of ING-Bank N.V. The loan bears interest at a rate of 11.25% per annum, payable semi-annually. The principal of the loan is repayable on November 15, 2004.

In April 2002, Uralmash obtained a Euro-denominated loan from Uraltransportbank for the purchase of foreign metallurgical equipment. The loan bears interest at a rate of 7.25% per annum and is payable on April 1, 2006. The loan is secured by the underlying foreign equipment.

In May 1993, Uralmash obtained a loan from the Ministry of Finance of the Russian Federation for delivery of equipment for the plant in Rurkela, India under an agreement between Uralmash and Steel Authority of India, Ltd. The loan bears interest at a rate of 10% per annum. The repayment of the loan should be effected in full by July 2005. The loan is secured by the rights to receive payments under an agreement between Uralmash and Steel Authority of India, Ltd. on delivery of equipment to Rurkela Metallurgical Plant in India. The Ministry of Finance can withhold from the Uralmash bank accounts the amount of indebtedness, or the Company's assets in the outstanding amount.

In November 1993, Uralmash obtained a loan from the Ministry of Finance of the Russian Federation for delivery of equipment to Bhilai Metallurgical Plant in India. The loan bears interest at a rate of 12% per annum. The repayment of the loan was to be effected in full by April 1995. Due to this fact the outstanding balance is shown as current portion of long-term debt. The loan is secured by the rights to receive payments under an agreement between Uralmash and Tyazhpromexport on delivery of equipment to Bhilai Metallurgical Plant. The Ministry of Finance of the Russian Federation can withhold from the Uralmash account the amount of indebtedness, or the Company's assets in the outstanding amount. No action has been taken by the Ministry of Finance of the Russian Federation to obtain immediate repayment.

In September 2001, Uralmash obtained a USD-denominated credit line from Alfa-Bank. The loan bears interest at a rate of 7.70% per annum and is payable on December 31, 2006.

Aggregate maturities of long-term debt as of June 30, 2003, were as follows:

2003	4,113
2004	31,154
2005	353
2006	1,535
	<u>37,155</u>

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20. Other Long Term Debt

As at 1 September 2003, the Company owed Vneshtorgbank US\$36.8 million in connection with the Company's order for a diesel submarine for the Chinese Navy through Rosoboronexport. Pursuant to an arrangement with Vneshtorgbank, Vneshtorgbank issued a guarantee to the Chinese Ministry of Defence in respect of Rosoboronexport's performance bond which was issued as a result of advance payments made to the Company through Rosoboronexport. Due to a statutory requirement that significant bank guarantees are collateralised, the Company provided Vneshtorgbank with promissory notes issued by Vneshtorgbank and purchased by the Company with funds advanced to the Company by Vneshtorgbank by way of an unsecured loan of US\$36.8 million. The promissory notes and the unsecured notes are of the same maturity and interest accrues at the same rate. The Parent Company expects that the Company will offset the promissory notes against the loan on the relevant payment dates.

21. Minority Interest

As of December 31, 2002	<u>229,877</u>
Cumulative translation adjustment (<i>Note 3</i>)	10,777
Minority interest in deferred tax recognized as other comprehensive loss (<i>Note 3</i>)	(11,195)
Acquisition of subsidiaries during the six months 2003:	
Zarubezhenergoproekt	629
Biolink	504
Minority interest in net income of subsidiaries	<u>(2,518)</u>
As of June 30, 2003	<u><u>228,074</u></u>

22. Shareholders' Deficiency

Common and Cumulative Preferred Stock

The Company's original charter provided for 2,830,000 shares of authorized 100-ruble par value common stock. Subsequently, the Board of Directors has authorized the issue of additional charter capital of 9,420,000 shares of common stock in April 1997, 2,750,000 shares of cumulative preferred stock in May 1997, and 4,500,000 shares of common stock in June 1997. On May 27, 1998, the Company additionally issued 18,600,000 shares of common stock with par value of 0.1 rubles. All newly issued stock was used by the Company for acquisition of its subsidiaries or transferred to related parties, ZAO Neftyanoi Investitsionnyi Dom and OOO Novye Vozmozhnosti, at par value with an option to re-acquire them at par value in the future.

The shares of cumulative preferred stock do not have a voting right, except for certain issues pertaining to the liquidation or reorganization of the Company or changes in the charter documents, earn dividends at 12% per annum, and have a liquidation value of 0.1 rubles per share.

In August 2000, the Company additionally authorized 30,000,000 shares of common stock for future issuances. As of December 31, 2000, the Company's authorized charter capital consisted of 66,250,000 shares of common stock and 2,750,000 shares of cumulative preferred stock with par value of 0.1 rubles per share, of which 35,350,000 and 2,750,000, respectively, were issued and outstanding at that date.

In February 1998, the Company's shareholders converted 12.2% of shares of its common stock to Global Depositary Receipts and American Depositary Receipts for trading on international stock

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22. Shareholders' Deficiency (continued)

Common and Cumulative Preferred Stock (continued)

markets. As of June 30, 2003 and December 31, 2002, Global and American Depositary Receipts amounted to 6,874,278 (19.45% of its common stock) and 7,475,251 (21.15% of its common stock), respectively.

Treasury Stock

In December 2001, the Company re-acquired 4,424,718 shares of its common stock at a price of 0.1 rubles per share from ZAO Neftyanoi Investitsionnyi Dom and OOO Novye Vozmozhnosti, both related parties. Such repurchase of treasury stock was made under the stock option agreement that had been concluded by the parties in 1998, when these related parties acquired the Company's common stock at similar prices.

In December 2001, 450,000 shares of the treasury stock were sold to the Company's management at a price of 0.27 rubles per share. As of the dates of such sale, the Company's common stock was quoted at US\$4.00 per share. The Company recognized management compensation expense of US\$1,800 in its consolidated statement of income being the fair value of the common stock given with a corresponding increase in additional paid-in capital.

In December 2002, the Company's Board of Directors approved a plan to distribute 442,500 shares of treasury stock to top managerial employees at a price of 10 cents per share as compensation for their services during the period of 2000 - 2002.

As of December 31, 2002, the Company's common stock was quoted at US\$5.80 per share. The Company recognized management compensation expense of US\$2,522 in its 2002 consolidated statement of income. No treasury stock was distributed through December 31, 2002. Throughout the six months ended June 30, 2003, 401,000 of shares were purchased by the Company's management.

As of June 30, 2003 and December 31, 2002 3,573,718 and 3,974,718 shares of the Company's common stock remained in treasury stock. The fair value of such treasury shares as of June 30, 2003 and December 31, 2002, using the RTS stock quote as of that date, was US\$25,266 and US\$23,252.

Stock Awards

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company measures compensation expense for its stock-based employee compensation plans using the intrinsic value method prescribed by the Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation costs associated with stock-based awards were charged against the Company's results of operations in the six months ended June 30, 2003 and 2002.

In December 2002, the Company's Board of Directors approved an executive stock option plan for its top executives for the period of 2003 - 2005, to become effective on January 1, 2003. The Plan provides for 4,000,000 shares of the Company's common stock to be vested over the period of three years. Full vesting is conditional on the Company's share price reaching US\$11 over the period of three years ended December 31, 2005.

Additional Paid-In Capital

Additional paid-in capital was formed mainly in 1997-98 as a result of the issuance of the Company's common and cumulative preferred stock at prices in excess of par value or as a consideration for the acquisition of controlling stakes in Uralmash, ZSMK and Izhorskiye Zavody. As described above, US\$1,800 and US\$2,434 of additional paid-in capital originated in 2001 and six months of 2003 from

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22. Shareholders' Deficiency (continued)

Additional Paid-In Capital (continued)

the re-issuance of the Company's common stock to management as the consideration for past services.

Distribution of Statutory Earnings

In accordance with Russian legislation, the Company can distribute all profits as dividends or transfer them to reserves. Dividends may only be declared from accumulated undistributed and unreserved earnings as shown in the Russian statutory financial statements. Dividends are subject to a 6% withholding tax, which can be reduced or eliminated if paid to foreign owners under certain applicable double tax treaties.

23. Gain on Sale of Non-Core Business Units

During the first quarter of 2003, the management of the Company disposed of its Metallurgical Equipment (METEQ) business segment to Severstalmash, the machine building division of Severstal. Under the agreement Severstalmash acquired the sales and marketing organization and engineering expertise of the METEQ business segment as well as the right to use the corresponding trademarks for a total consideration of US\$14 million. The sale resulted in the recognition of a gain of US\$13.0 million. The disposal did not result in the transfer any of the Company's production facilities to Severstalmash.

Gain on sale of non-core business units consisted of the following during the six months ended:

	<u>30 June, 2003</u>	<u>30 June, 2002</u>
Disposal of (METEQ) business segment	12,987	-
Other disposals	(106)	128
Total gain on sale of non-core business units	<u>12,881</u>	<u>128</u>

24. Commitments and Contingencies

Tax Optimization

The Company uses a number of methods to reduce or minimize its tax obligations, including transfer of its profits offshore or to domestic tax havens. This resulted in significant tax savings to the Company in 2001 and prior years. There is a risk that certain tax optimization transactions may be challenged by authorities and result in significant penalties and other liabilities, or the opportunities to execute such transactions may cease.

Management believes that the Company will continue to manage and adapt to any amendments or new regulations, which may impact upon current business practice and operations to avoid any material adverse effect.

Economic and Political Environment in Russia

The Russian economy while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls, which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

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24. Commitments and Contingencies (continued)

Economic and Political Environment in Russia (continued)

As of June 30, 2003, the Company does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements for those statements not to be misleading.

The Company may be subject to loss contingencies pursuant to Russian national and regional environmental claims that may arise from past and current operations. As Russian laws and regulations evolve concerning environmental assessments and cleanups, the Company may incur future costs, the amount of which is currently indeterminable due to such factors as the current state of the Russian regulatory process, the ultimate determination of responsible parties associated with these costs and the Russian government's assessment of respective parties' ability to pay for these costs related to environmental reclamation.

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. The Company does not believe that these contingencies as related to its operations, are any more significant than those of similar enterprises in Russia.

25. Segment Information

The Company has six reportable operating segments. These segments are combinations of business units that have separate management teams and offer different products and services. A brief description of each segment is as follows:

Oil and gas equipment segment specializes in engineering, marketing and sales of three major types of drilling equipment, specifically oil and gas drilling rigs, drilling rig units and components and drilling rig spare parts and related services. Drilling equipment is purchased from Machinery manufacturing services segment and manufactured at Burovaya Tekhnika, Pavlovsk Machinery and UPET. One of the Company's subsidiaries, FGL Buyer, specializes in naval architecture and marine engineering in the offshore drilling industry.

Mining equipment segment specializes in engineering, marketing and sales of three major types of mining equipment: excavators (electric mining excavators and walking draglines), crushing equipment, and rock-drilling machines. Mining equipment is produced by Machinery manufacturing services segment.

Specialty steel segment produces 150 specialty steel grades and a variety of castings and forgings. The Company produces high-strength structural grades, corrosion-resistant, radiation-resistant, heat-resistant, cold-resistant, non-magnetic and high-alloyed grades of steel. Standard types of casting, forging, and molding production include retaining rings for power generating equipment, chill mould blanks, bearing ring blanks, column equipment, ship spindles, mill rolls, tank courses, as well as similar custom-made metal products. A significant part of the basic metal production is used internally as an input for machinery equipment segment, equipment for nuclear power plants. Specialty steels are manufactured primarily at Uralmash and Izhorskiye Zavody.

Equipment for nuclear power plants segment production is based at Izhorskiye Zavody and produces three major types of equipment for the nuclear power industry:

- Primary circuit equipment for nuclear power plants. A standard set of primary circuit equipment produced by the Company comprises of a reactor vessel, in-vessel components, and a cover with extending pipes.

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25. Segment Information (continued)

- Spent nuclear fuel containers for nuclear power blocks. The Company manufactures containers for storage and transportation of spent nuclear fuel from pressurized water reactors and scientific nuclear reactors.
- A wide range of spare parts.

In addition, the segment provides services for installation of nuclear power plant equipment and project management of long-term contracts for construction of nuclear power plants.

Shipbuilding segment designs and manufactures a wide range of civil, military, and special-purpose vessels and submarines, including air-cushioned landing craft and multi-purpose hovercrafts and patrol boats, circulation systems for oilrigs.

The Company's current product range includes dry-cargo carriers with deadweight of up to 6,000 tons and oil tankers with deadweight of up to 8,000 tons. Shipbuilding production is located at Krasnoe Sormovo, Nizhegorodskiy Teplokhod, Third International, and Almaz.

Machinery manufacturing services segment produces machinery equipment based on OMZ's proprietary engineering and the production of equipment based on third party engineering, for various industries, including oil and gas, mining and metallurgical equipment. The production sites for machinery manufacturing services are mainly Uralmash and Izhorskiye Zavody.

All remaining activities are included in "Corporate and Other" category for reporting purposes.

All six segments meet the criteria set for reportable segments. The Company evaluates performance and allocates resources based on gross margin. Intersegment turnover is shown at market-based prices. Management believes that the utilization of profit (loss) from operations has limited usefulness as it involves significant judgment in allocating overhead costs because of the Company's complex operating structure. Selling, general, and administrative expenses and indirect production costs were allocated among business segments in the same proportion as direct costs.

Segment information for six months ended June 30, 2003:

	Oil and gas equipment	Mining equipment	Specialty steels	Equipment for nuclear power plants	Ship- building	Machinery manufacturing services	Corporate and other	Total
Revenues from external customers	37,757	23,884	24,063	36,994	44,731	24,356	23,917	215,702
Intersegment revenues	-	-	26,241	-	-	37,702	-	63,943
Gross margin	11,878	4,934	10,923	12,651	7,207	9,012	4,617	61,222
Gross margin, %	31%	21%	22%	34%	16%	15%	19%	28%
Depreciation and amortization	1,380	5	1,860	346	1,675	7,058	677	13,001
Income (loss) from operations	798	700	7,086	6,746	2,353	(1,909)	(5,325)	10,449
Interest expense	129	808	250	735	940	703	5,593	9,158
Segment assets	60,996	25,515	59,299	126,258	133,216	176,581	202,097	783,962
Capital expenditures	1,211	-	254	459	633	12,482	1,720	16,759

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25. Segment Information (continued)

Segment information for six months ended June 30, 2002:

	Oil and gas equipment	Mining equipment	Specialty steels	Equipment for nuclear power plants	Ship- building	Machinery manufacturing services	Corporate and other	Total
Revenues from external customers	39,119	18,128	20,158	37,089	23,960	38,435	25,982	202,871
Intersegment revenues	-	-	41,262	-	-	67,161	-	108,423
Gross margin	9,652	3,382	8,997	14,183	3,025	11,860	3,451	54,550
Gross margin, %	25%	19%	15%	38%	13%	11%	13%	27%
Depreciation and amortization	491	-	1,513	317	418	7,902	664	11,305
Income (loss) from operations	6,587	549	5,930	6,937	732	6,926	(2,858)	24,803
Interest expense	-	-	-	-	7	-	(7)	-
Segment assets	68,676	15,357	62,938	66,830	88,686	185,422	104,623	592,532
Capital expenditures	1,908	-	715	-	1,495	12,103	6,560	22,781

The Company sells its products in several markets. External sales by major geographic regions were as follows for the six months ended:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Russia	116,821	133,809
Asia	49,240	29,926
Commonwealth of Independent States	10,598	28,486
Europe	37,914	9,783
North America	793	867
Other regions	336	-
Total sales	<u>215,702</u>	<u>202,871</u>

26. Subsequent Events

In July and October 2003, the Company acquired additional stakes of 31.05% and 19.22% of the outstanding common stock of Volgograd Shipbuilding Plant, which specializes in the manufacturing of river-sea vessels as well as other equipment for the oil and gas industry, for a total cash consideration of US\$3,823 and US\$1,091 increasing its ownership interest therein to 69.23%. Subsequent to October 07, 2003, Volgograd Shipbuilding Plant has been accounted for under the full-consolidation method.

In October 2003, the Company acquired additional stakes of 62.51% of OAO CKB Korall, a Ukrainian-based naval engineering and construction bureau specializing in engineering of complex mobile offshore drilling units for a total cash consideration of US\$2,501 increasing its ownership interest therein to 92.91%.